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SUBJECT: CANADA BLOCKS SALE OF ICONIC SPACE ASSETS TO U.S.
FIRM

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¶1. (SBU) Summary. The Canadian government has decided to block the acquisition by an American company of the space business assets from MDA Corporation, including its space-based imaging satellite, Radarsat 2. The decision follows broad public concern over the sale, particularly over the potential loss of the Radarsat system and its unique capability to observe the Arctic. The denial is reportedly Canada's first disapproval of a proposed foreign investment in 23 years, a period during which Canada allowed over 12,000 foreign investments and acquisitions. Canada's MDA decision appears to reflect a unique set of circumstances, and should not portend a wholesale change in Canada's approach to foreign investment. End summary.

¶2. (U) On April 10, federal Minister of Industry Jim Prentice denied the application by American firm ATK to acquire the space-related business assets of Vancouver-based MDA for $1.3 billion. Among the assets MDA had offered to ATK was the Radarsat 2 radar imaging satellite launched in December 2007. MDA also built the iconic Canadarm used on space shuttles and the new DEXTRE robotic manipulator delivered to the International Space Station earlier this year.

¶3. (U) Under the Investment Canada Act (ICA), the government can review a foreign investment if it involves the acquisition of a Canadian business above a certain dollar-value threshold. For the United States and other WTO members, the investment threshold is currently C$295 million for a direct acquisition. (The investment is not reviewable if it is an indirect acquisition.) The Minister of Industry carries out this review unless the acquisition involves a cultural industry, in which case the review is conducted by the Minister of Canadian Heritage.

¶4. (U) Under the ICA, the responsible minister conducts the review of the proposed investment and gauges the "net benefit" to Canada by evaluating several factors. These factors include the effect of the investment on technological development, product innovation, and product variety in Canada. In the MDA case, Minister Prentice decided that the proposed sale did not provide "net benefit" to Canada.

¶5. (U) Few observers expressed surprise over Prentice's decision. Opposition to the sale over recent weeks had been broad-based, coming from opposition parties in Parliament, labor unions, a Nobel Prize-winning chemist, Canada's first astronaut, and even elements within the Conservative caucus.

Criticisms of the proposed sale focused on two issues: the claim that the transfer of Radarsat 2 to an American company could lead to a loss of sovereignty in the Arctic (the satellite is said to be uniquely capable of providing high-resolution images of the Arctic); and the investment by Canadian taxpayers of some C$300 million in Radarsat 2 before the government transferred it to MDA in the late 1990s. (Ironically, MDA at that time was majority owned by Orbital Sciences Corporation of California.)

¶6. (U) The American company, ATK, now has 30 days if it wishes to make additional arguments, provide additional information, or propose new arrangements to make the case that the sale would bring "net benefit" to Canada. The minister would then make a final decision, which is not reviewable by Canadian Courts.

¶7. (U) The MDA case appears to be the first outright denial
Q7. (U) The MDA case appears to be the first outright denial
of a foreign investment since the Investment Canada Act was revamped in the mid-1980s. Since then, the government has reviewed and approved 1,587 foreign takeovers according to figures from Industry Canada, while another 11,214 foreign acquisitions required notification under the ICA, but not a formal review. The MDA case comes at a time of increasing public concern over foreign corporate ownership in Canada (reftel) and when opposition parties are pressuring the minority Conservative government to address the putative "hollowing out" of Canada's manufacturing sector.

¶8. (SBU) Comment: While Prentice's decision could lead to discussion between the government and ATK that will yield agreement, observers say the unusually firm phrasing of Prentice's denial suggests it is meant to be final. Observers also suggest that, given the public outcry over the

proposed acquisition, the decision is politically understandable and in fact likely to be highly popular.

¶9. (SBU) While Embassy believes that the political concerns and pressures at play here will discourage further liberalization of investment policy, at least for the time being, the MDA case appears to arise from a unique set of circumstances that should not portend a wholesale change to Canada's approach to Foreign investment. Indeed, at a press conference late on April 10, Prentice emphasized that this case is a "one off" decision and that Canada is still "open for business." End comment.

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